

Policy Pennings by Dr. Daryll E. Ray

U.S. trade balance goes south

For the last 40 years, agriculture has been one of the few economic sectors showing a positive balance of trade. On average in the 1980s, the US exported over \$16 billion more in agricultural products than it imported. A recently released USDA publication indicates that for the 2005 fiscal year the value of exports from and imports to the US may equal each other at \$56 billion. So how did we get to this point?

For years, US producers have argued that if they just had a level playing field they could out-produce farmers any where in the world. As we have moved toward more level playing fields, we find that these changes have affected US farmers but not just US producers. They also have provided opportunities for producers around the world.

In this regard, we have seen two effects. First in recent years, we have seen more competition for major export commodities like corn, soybean, and wheat coming from countries like Brazil, Argentina, Australia, Ukraine and Kazakhstan. Among the reasons for this is that globalization has increased the opportunity for the multinational agribusinesses to lend their expertise to producers in these countries bringing about a significant increase in productivity and often lower transaction costs. The collective result has been that the US share of the soybean trade has dwindled from a once lofty 80% to about 35% today. Projected corn exports for 2005 are 86% of their 1979 peak. In 1981, US wheat exports peaked at 48.8 million tonnes (metric tons), while projections for the 2004 crop year are 26.5 million tonnes, a drop of 46%.

Second, the changes in the world trade regimen have made it easier for those producing horticultural and other crops to reach US markets on a continuing basis. The dozen roses that once cost you \$40 a dozen in your local floral shop are now selling for \$10 a dozen in your neighborhood grocery store. Since 2000, the value of domestically produced roses has fallen by 26% while imports, primarily from Columbia, have increased by 19%. Domestic producers are increasingly facing a financial squeeze that reduces their competitiveness. Similar stories can be told about apple products coming in from New Zealand and China, hot peppers from Mexico and a host of other horticultural pressures.

Thus, increased globalization has unleashed forces that have squeezed the US agriculture sector balance of payments from both the export and import sides.

As mentioned early on, portions of US agriculture have benefited from more open markets. The many-fold increase in meat and livestock exports has had, on average, a significant impact on the bottom line of livestock producers, although the variability of livestock prices and incomes has also increased.

It is, of course, true that the total value of agricultural exports has increased over the years, but much of that increase has been due to value that has been added to farm products by non-farmers. Exports of bulk commodities that directly impact farmers in the grain belt and fruit and horticultural products produced in, what USDA calls, the fruitful rim, have not experienced the growth that farmers expected or were promised.

This is, of course, not to say that opening up markets and international trade have not been an overall benefit to the US. But that was not the basis on which it was sold to US producers. When addressing producers, the focus was always on the potential for increasing markets for US agricultural products. Little attention was paid to the fact that trade is a two way street, and when it was acknowledged, it was dismissed as only affecting a few minor agricultural products. As we are seeing today, the impact is much greater than most ever dreamed. US producers of products ranging from corn to soybeans to hot peppers to long stem roses to apples and apple sauce are seeing increased competition not only abroad but at home as well.

It will remain to be seen whether the 2005 forecast will come true and is a fluke or if it is the beginning of a new trend in which the US will spend more on agricultural imports than it receives from agricultural exports.

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